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SIPDIS

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SUBJECT: SCRUTINY OF BANK CENTURY BAILOUT ICCREASES

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Classified By AMBASSADOR CAMERON HUME FOR REASONS 1.4 (b and d)

11. (C) Summary. The Yudhoyono administration's bailout of failed Bank Century in November 2008 (reftel) has gone from a controversial policy decision taken by technocrats at the height of the financial crisis to a potential focus for opposition against the new administration. A group of primarily opposition legislators has called for initiation of a parliamentary investigation of the decision, which they claim wasted millions of dollars of taxpayers' funds to benefit powerful business and political interests. Opposition legislators have not yet, however, decided on when to initiate this motion. House Speaker Marzuki Alie (of Yudhoyono's Partai Demokrat) and some government officials, such as Minister of Communications Tifatul Sembiring (of PKS) have cautioned critics to wait for the results of an investigative audit being conducted by the Supreme Audit Board (BPK) and expected to conclude by year's end. An Embassy contact told us that funds from Bank Century had been used for financing President Yudhoyono's reelection campaign. End summary.

\$700 MILLION QUESTION: BANKING SYSTEM STABILITY OR
BAILOUT FOR POWERFUL INTERESTS?

12. (SBU) Scrutiny of the Bank Century bailout grew following disclosure that capital injections to the failed bank totaled IDR 6.7 trillion (about USD 700 million), much higher than the IDR 2.6 trillion (about USD 270 million) initial injection previously reported to legislators. Critics of the bailout have faulted Finance Minister Sri Mulyani Indrawati and former Bank Indonesia (BI) Governor and current Vice President Boediono for deciding to save the bank, rather than allowing it to fail. Financial analysts and bankers generally supported the decision, accepting that a Bank Century closing in the midst of the financial crisis risked destabilizing the Indonesian banking system.

13. (U) Controversy over the bailout of Bank Century (subsequently renamed Bank Mutiara) grew in the last parliament after disclosure of total capital injections in the bank by the Deposit Guarantee Agency (LPS) equivalent to over USD 700 million. This figure was much higher than original estimates of the bailout and than an earlier disclosure of the initial capital injection. Media reports alleging that the bailout may have benefited powerful business interests with funds in the failed bank provided further material to critics. LPS Executive Director Firdaus Djaelani said only one large depositor (identified in the press as Budi Sampoerna) had made large withdrawals from his account following the government takeover, but that such

withdrawals only represented ten percent of his balance. Clearly, however, depositors in Bank Century with accounts over the deposit guarantee limit of IDR 2 billion (about USD 208,000) benefited from the decision to save, rather than liquidate, the bank.

¶4. (C) A reliable Embassy contact with Indonesia Corruption Watch (PLEASE PROTECT) told us he understood that funds from Bank Century had been used for financing President Yudhoyono's reelection campaign. He believed the information was credible. Former Vice President Jusuf Kalla strongly criticized the bailout during his last weeks in office. He claimed that BI under Boediono was negligent in supervising Bank Century and argued that the bank should have been closed as its failure was due to fraud perpetuated by major shareholders. An interim report presented by the BPK to the previous House of Representatives (DPR) at the end of September reportedly indicated that banking crimes likely triggered Bank Century's failure, prompting the DPR's Finance and Banking Commission to recommend inquiry into the case. BPK is continuing an audit requested by the previous DPR and is receiving assistance from PPATK, Indonesia's Financial Intelligence Unit, regarding the flow of funds related to Bank Century.

¶5. (U) The Bank Century case became the subject of additional controversy after being linked to the conflict between the Corruption Eradication Commission (KPK) and the Indonesian National Police (INP). The media has reported that KPK wiretaps may have implicated INP Chief Detective Susno Duajdi in soliciting a bribe to assist a wealthy depositor in withdrawing funds from Bank Century following the bailout, although no clear evidence of these allegations has been made public. The presidential fact-finding team named by President Yudhoyono to investigate the KPK-INP controversy (septel) is also reportedly now looking into the Bank Century case.

PARLIAMENT: SOME LEGISLATORS CALL FOR INVESTIGATION, WHILE OTHERS AWAIT AUDIT RESULTS

¶6. (C) Opposition Indonesia Democratic Party of Struggle (PDI-P) legislators in the current DPR, have called for the formation of a parliamentary investigative committee on the government's handling of the Bank Century bailout. PDI-P legislator Eva Sundari (PLEASE PROTECT) told us November 6 that PDI-P has not yet decided how to move forward a motion to establish an investigative commission. Sundari said opposition parties Gerindra and Hanura seemed firm in joining PDI-P to support the motion and several members from government coalition parties (including Golkar and PAN) have agreed to support the motion. PDI-P is trying to gather additional support. Meanwhile, House Speaker Marzuki Alie, of Yudhoyono's Partai Demokrat, and some government officials such as Communications Minister Tifatul Sembiring (of PKS) have urged stakeholders to wait for the Supreme Audit Agency to finish its audit before considering other action. Calls for investigation have been seen by some analysts as an attempt to weaken technocrats in the Yudhoyono administration, following elections which had excoriated technocrats for their "neoliberal" economic policies.

ATTORNEY GENERAL'S OFFICE CITES LEGAL BASIS OF DECISION, BUT SOME LEGISLATORS QUESTION MOTIVES

¶7. (U) Qe legislators have also questioned the motives of the Attorney General's Office in defending the legal basis of the decision to save Bank Century. On October 23, Deputy Attorney General for Special Crimes Marwan Effendy told the press that the Attorney General's Office (AGO) had not seen any indication that the extension of bailout funds by LPS, based on a recommendation by the Financial Sector Stability Committee headed by Finance Minister Sri Mulyani Indrawati and including then-Bank Indonesia Governor Boediono, had violated any law or had caused a loss to the state. Effendy said the decision was based on a valid government regulation in lieu of law (Perppu 4/2008). At least one opposition PDI-P legislator, Maruarar Sirait, told the press he

suspected Effendy's statement was made to protect the Finance Ministry, BI and LPS, while a former PAN legislator, Drajad Hari Wibowo said he worried that the statement reflected systematic efforts to put the case on ice.

DEFENSE OF BAILOUT AND EFFORTS TO TRACK DOWN ASSETS OF BANK CENTURY SHAREHOLDERS

18. (U) Finance Minister Sri Mulyani has consistently defended the decision to save Bank Century, given the risks to financial system and the need to prevent a run on banks at the height of the financial crisis. BI officials have also cited particular risks to the nearly two dozen other small banks whose depositors were fleeing in droves to larger institutions. Sri Mulyani has stated that she was unaware of any alleged fraud that may have been committed by bank shareholders at the time of the decision. Major Bank Century shareholder Robert Tantular was subsequently convicted in September 2009 of bank fraud and two other shareholders implicated in the fraud remain fugitives. Minister Mulyani has told press she welcomes the BPK's audit, which is to be completed by year's end. Meanwhile, government authorities continue efforts to recover funds believed moved offshore by the implicated Bank Century shareholders prior to the government takeover.

HUME